

Message Text

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ACTION NEA-10

INFO OCT-01 AF-08 ARA-06 EUR-12 EA-07 ISO-00 ERDA-05
AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 EB-07
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FM AMEMBASSY TEHRAN
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AMEMBASSY ALGIERS
AMEMBASSY CARACAS
AMEMBASSY DOHA
AMEMBASSY JAKARTA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LAGOS
AMEMBASSY LIBREVILLE
AMEMBASSY LONDON
AMEMBASSY QUITO
AMEMBASSY TRIPOLI
USINT BAGHDAD

C O N F I D E N T I A L TEHRAN 12857

E.O.11652: GDS
TAGS: ENRG, OPEC, IR
SUBJ: IRANIAN THOUGHTS ABOUT TWO-TIER PRICE SYSTEM

1. DURING PAST WEEK, EMBASSY'S PETROLEUM OFFICER HAS TALKED TO SEVERAL SENIOR AND MIDDLE-LEVEL NIOC OFFICIALS, THE LOCAL CONSORTIUM REPRESENTATIVE AND VARIOUS OTHER SOURCES. IRANIAN CONTACTS ARE UNIFORMLY WORRIED AND MANY ARE OPENLY PESSIMISTIC ABOUT ABILITY OF IRAN (AND OTHER PERSIAN GULF MEMBERS OF OPEC ELEVEN) TO ADHERE TO 10 PERCENT INCREASE. THERE IS CONSIDERABLE TALK
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OF IMPENDING NEED FOR BELT-TIGHTENING BUT LITTLE APPARENT BELIEF THAT IT WILL OCCUR WILLINGLY. REPORTEDLY, THE SHAH, AMOUZEGAR AND NIOC MANAGING DIRECTOR EGHBAL ARE STILL RELATIVELY OPTIMISTIC AND THINK THAT TWO-TIER PRICE SYSTEM WILL WORK TO IRAN'S ADVANTAGE. HOWEVER, WE ARE INFORMED THAT A CAREFULLY WORDED PAPER DISCUSSING THE PROBLEMS IRAN WILL LIKELY FACE IN MARKETING ITS OIL AFTER JANUARY

1 HAS BEEN PREPARED AT THE OPERATIONAL LEVEL OF NIOC AND SENT TO THE SHAH THROUGH EGHBAL.

2. EMBASSY'S NORMAL SOURCES IN NIOC ARE SURPRISINGLY OPENIN TALKING ABOUT THEIR CONCERNS AND ALL HAVE DEMONSTRATED, EITHER OPENLY OR BY INFERENCE, A BELIEF THAT ALMOST ANY COMPROMISE WOULD HAVE BEEN PREFERABLE TO TWO-TIER SYSTEM. THEY ANTICIPATE THAT THEY, ALONG WITH IRAQ AND KUWAIT, WILL FEEL THE BRUNT OF THE PRESSURE FROM THE AVAILABILITY OF CHEAPER SAUDI AND U.A.E. CRUDE AND THAT IRAQ WILL MAKE LITTLE OR NO ATTEMPT TO HOLD TO THE \$1.19 PER BARREL PRICE INCREASE IF IT REQUIRES IRAQ TO SHUT-IN ANY APPRECIABLE AMOUNT OF CAPACITY. THESE NIOC SOURCES HAVE NOT SAID NOR IMPLIED THAT THEY WOULD RECOMMEND CUTTING PRICES TO PREVENT PRODUCTION FROM FALLING BELOW ANY SPECIFIC AMOUNT. THE IMPRESSION GIVEN IS THAT NIOC HAS NOT MADE (AND FEELS INCAPABLE OF MAKING) ANY SERIOUS ATTEMPT TO PREDICT WHAT THE NEW YEAR WILL BRING AND WILL, THEREFORE, WAIT FOR MARKET FORCES TO SHOW THEMSELVES.

3. LOCAL CONSORTIUM REPRESENTATIVE WAS UNWILLING TO SUPPLY FIGURES BUT HE PREDICTS A VERY SUBSTANTIAL FALL IN OFF-TAKE BY CONSORTIUM MEMBER COMPANIES BEGINNING IN JANUARY. MOREOVER, BECAUSE OF THE UNDERSTANDING (OR LACK THEREOF) BETWEEN IRAN AND THE CONSORTIUM, NIOC RECOGNIZES THAT THE CONSORTIUM DOES NOT FEEL LEGALLY BOUND TO ARTIFICALLY MAINTAIN ITS LIFTINGS IN IRAN. IN ACCORDANCE WITH TERMS OF THE 1973 SALES AND PURCHASE AGREEMENT, THE CONSORTIUM IN OCTOBER 1976 "NOMINATED" TO NIOC ITS REQUIREMENTS FOR CRUDE OIL EXPORT DURING 1977. HOWEVER, IN MAKING ITS NOMINATION THE CONSORTIUM STATED THAT ITS ABILITY AND WILLINGNESS TO ADHERE TO THE PROPOSED SCHEDULE OF EXPORTS WOULD DEPEND UPON CONTINUATION OF EXISTING CRUDE PRICES AND ECONOMIC CONDITIONS. NIOC RESPONDED
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THAT CONDITIONS WERE UNACCEPTABLE AND INVALID BUT ADDED THAT NIOC WOULD MAXIMIZE ITS OWN DIRECT SALES BECAUSE OF CONSORTIUM'S FAILURE TO MEET ITS OBLIGATIONS. CONSEQUENTLY, DURING 1977 (AT LEAST UNTIL A NEW OR REVISED AGREEMENT IS REACHED) NIOC WILL MARKET WHATEVER OIL IT CAN AND THEN OFFER THE CONSORTIUM WHATEVER IS LEFT.

4. NIOC'S DIRECT THIRD PARTY CRUDE SALES ARE CURRENTLY (NOVEMBER AND FIRST THREE WEEKS OF DECEMBER) RUNNING AT 1.5-1.6 MILLION BPD. THE JANUARY LOADING SCHEDULE FOR THE KHARG EXPORT TERMINAL HAS NIOC EXPORTS PROGRAMMED AT 1.0 MILLION BPD, BUT WE ARE RELIABLY INFORMED THAT THIS OVERSTATES WHAT NIOC WILL ACTUALLY MOVE.

5. THE POSSIBILITY OF AN EXTRAORDINARY OPEC MINISTERIAL MEETING BEING CALLED DURING EARLY 1977 IS NOW APPEARING IN LOCAL PRESS BUT OFFICIAL SOURCES ARE GUARDED IN THEIR REMARKS ON THIS TOPIC. EMBASSY BELIEVES THAT IRAN WOULD BE WILLING TO ATTEND

SUCH A MEETING BUT THAT IT WILL NOT ADVOCATE ONE UNTIL SITUATION
IN INTERNATIONAL OIL MARKET HAS SOMEWHAT SORTED ITSELF OUT.

6. AS A FINAL NOTE INDICATIVE OF THE LACK OF PLANNING AND
COORDINATION WITHIN NIOC, IT IS INTERESTING THAT AS OF DECEMBER
27 THE CONSORTIUM HAD NOT BEEN NOTIFIED BY NIOC OF NEW OIL PRICES.
ACCORDING TO NIOC SOURCES, CRUDE BUYERS HAD NOT BEEN ADVISED OF NEW
PRICES BECAUSE THERE HAD BEEN DISAGREEMENT OVER WHETHER THE PRICES
ACCEPTED IN DOHA (I.E. INCREASE OF \$1.19 FOR IRANIAN LIGHT AND
\$1.16 FOR IRANIAN HEAVY) WERE DESIRABLE. DECISION HAS NOW BEEN
REACHED TO HONOR EARLIER COMMITMENT AND CONSEQUENTLY OFFICIAL
SELLING PRICES EFFECTIVE JANUARY 1 WILL BE \$12.81 FOR LIGHT AND
\$12.49 FOR HEAVY.
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